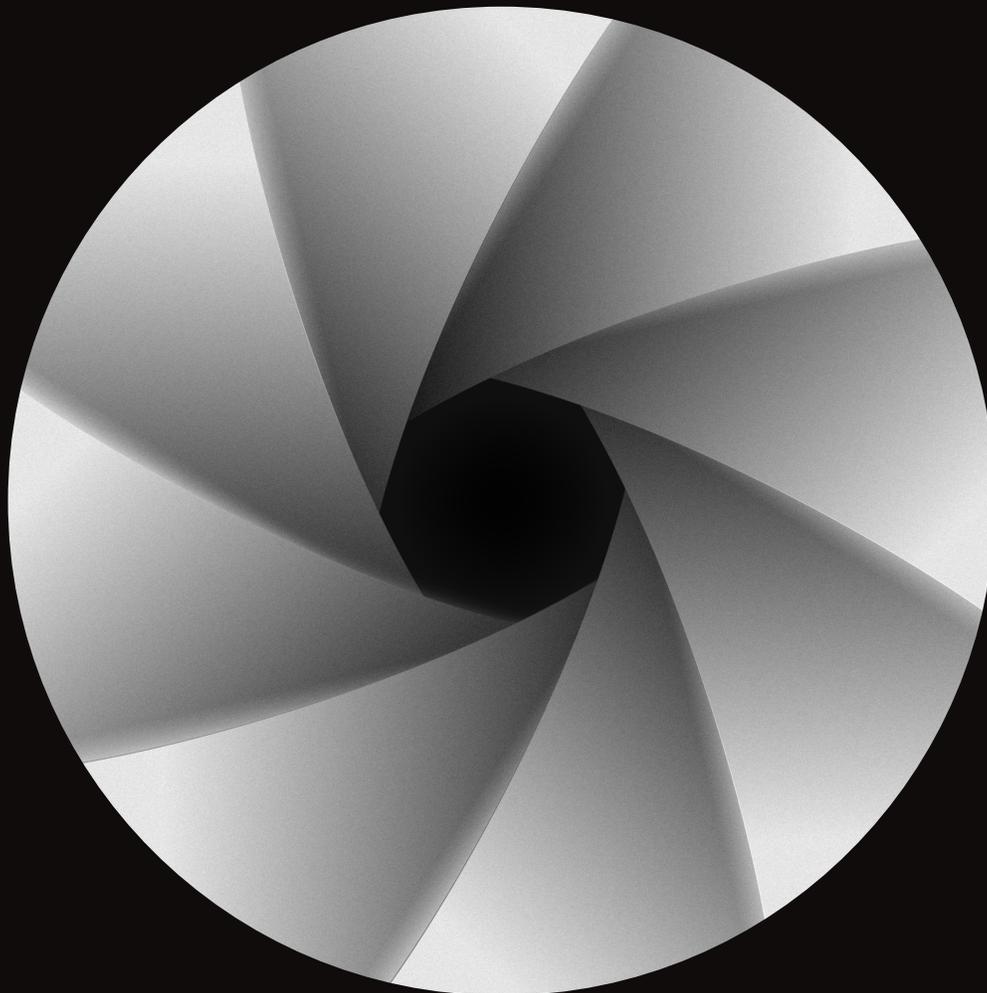


Deloitte.

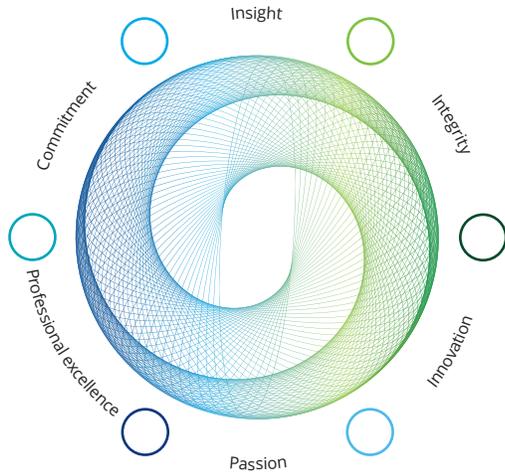


US Audit Quality Report

Our responsibility, our commitment

2018

Our purpose



Since the founding of the modern profession by W.W. Deloitte in 1845, the work of auditors has made an impact that matters. As it was then, and continues to be today, delivering high-quality audits is our top priority. Trust in financial statements and disclosures is critical to global markets. As independent auditors, we enhance trust in the companies we audit, helping a multi-trillion-dollar capital markets system function with greater confidence.



Our work helps the markets to trade with trust and confidence—the companies we audit represent approximately \$7.6 trillion of market capitalization.



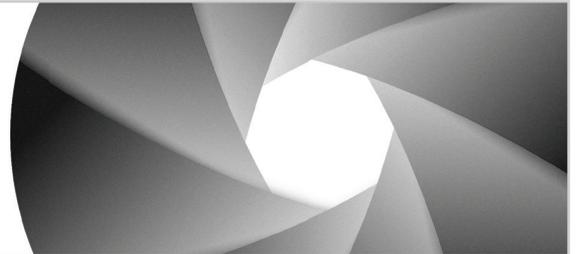
Our services facilitate capital formation—helping existing businesses to grow and expand, and entrepreneurs to raise the capital that fuels innovation.



Our independent, outside-in perspective delivers insights that can help clients run more effective organizations—driving economic growth, job creation, and innovation in the broader economy.

Delivering excellence in 2018

Committed to lead the profession, we are transforming the audit to deliver enhanced quality, value, and insights.



Executing high-quality audits



Over 50% reduction in number of PCAOB comments since 2011



19% of total audit hours performed by specialists



0.5% Reissuance restatements as a percentage of public companies audited



100% of our professionals signed our Audit Quality Affirmation, confirming their commitment to professional excellence

Collaborating across eminent stakeholders



Transforming through innovation



Several hundred million dollars invested in advanced technologies, analytics, and process transformation



Launched **Deloitte Omnia**, a global, next-generation, cloud-based audit platform



15% of audit hours performed by centers of excellence



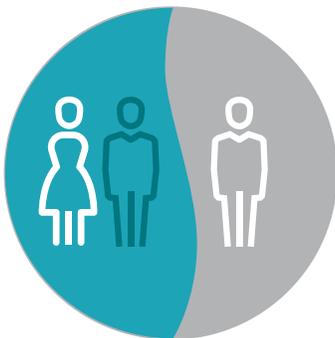
14 next-generation applications and analytics tools deployed



More than **240,000** of our professionals and clients globally use **Deloitte Connect** to share millions of documents in real time

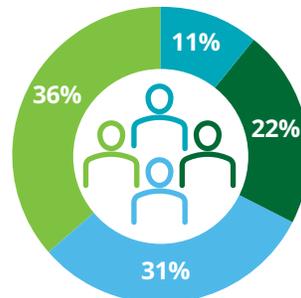
Disclosure Analytics, our advanced data science platform used to search US-based content, has been rolled out globally

Investing in our talent



50% or more of new partners, principals, and managing directors within Deloitte—and specifically Audit & Assurance—are **women and/or minorities**

10,708 Audit & Assurance professionals



- Partners and managing directors
- Senior managers and managers
- Seniors
- Staff



Our professionals surveyed indicated they were proud to be a part of Deloitte, reinforcing our spot on the **Fortune 100 Best Companies to Work For 2018** list



Fostering a culture of **inclusion** and **empowered well-being**, including a leading-edge **16-week family leave** program



89 average annual learning hours completed per audit professional and Deloitte University—our **\$300 million state-of-the-art learning center**—is at the core of our learning strategy

Being recognized for our leadership



Most public company net audit wins and total audit wins among the Big Four, as reported by Audit Analytics® January 1, 2015 – December 31, 2018



2018 winner for Cortex, our data analytics platform



2016 Top Accounting Firm Among the Big Four

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To the clients and stakeholders of Deloitte & Touche LLP:

Every day Deloitte's professionals bring to life our organization's core mission to deliver high-quality audits that provide confidence to the investing public, never losing sight of our vital role in the multi-trillion-dollar capital markets system that drives our economy. We take pride in the important role we play and are pleased to share our progress as we work to continuously enhance the quality of our audits.

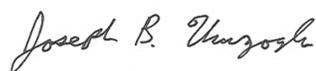
Among the topics covered in this report are:

- The investments we have made to enable a digital audit, combining our risk-based methodology with our state-of-the-art technologies to enhance quality and drive greater insights;
- Our enhanced learning programs designed to develop our professionals to be even more tech-savvy, and equipped to serve as the next-generation auditors in a digital world;
- Our commitment to soliciting outside feedback from critical stakeholders through our Audit Quality Advisory Council, as well as from audit committees, investors, C-suite executives, and academia;
- Insights into the quantitative metrics we use to monitor our practice and how we hold ourselves accountable for quality;
- Our talent development and retention practices, which include cultivating opportunities for our professionals to grow and thrive in an inclusive culture of courage, empowering them to find authentic connections, and championing well-being for themselves and for others;
- The actions we are taking to collaborate across the global Deloitte Network to develop and deploy innovative technologies and drive consistency in the execution of high-quality audit services.

When we imagine the audit of the future, we see it as an even more valuable enabler of our vibrant capital markets—on a path towards providing continuous assurance and insights through advanced technology platforms, artificial intelligence, and automation. It is evident that the audit is changing and will continue to evolve rapidly. However, the level of confidence and quality an audit delivers can never waver. We are committed to delivering audits of the highest quality, dedicated to professional excellence, and steadfast in serving our clients and the capital markets with distinction.

We appreciate the opportunity to share insights about the high level of quality we deliver today and our aspirational vision for tomorrow, and we welcome your feedback.

Sincerely,



Joseph B. Ucuzoglu
Chairman and Chief Executive Officer
Deloitte & Touche LLP



Catherine M. Engelbert
Chief Executive Officer
Deloitte

Our responsibility, our commitment

At Deloitte, audit quality is our highest priority. Quality informs every aspect of our Audit & Assurance practice, from strategy to delivery, and guides every step we take to support and develop our professionals. Our pursuit of audit quality is at the center of our culture of continuous improvement and innovation, as we seek to make our best work today even better tomorrow. Committed to lead, we are raising standards of audit quality across the global Deloitte Network and across the profession.

This report focuses on the steps we are taking to further enhance audit quality; the investments we are making to transform the audit; and our commitment to embracing a bold, new mindset as we continue shaping the future of the audit profession.

Reinforcing trust and stability in the capital markets

As auditors, we play a vital role in facilitating increased transparency in the capital markets. It is our responsibility to keep quality consistently high across all of our audits. We are dedicated to continuous improvement at every level of our organization and unwavering in our efforts to deepen accountability at every step of the audit process.

Our culture of continuous improvement is firmly rooted in accountability. Our leaders set the tone, holding themselves accountable and clearly communicating our commitment to audit quality. This tone at the top begins with senior leadership and continues through our practice offices and engagement team leaders. Our focus on audit quality is evident through the direct involvement of leaders at all levels in audit quality activities and consistent dissemination of quality-emphasizing messages through various practice communication channels. Our professionals are accountable for demonstrating high levels of integrity and professionalism at all times.

We invest in the development of all of our professionals. Ultimately, audit quality comes down to the work they do every day. We couple learning and development with strong performance management, and we continue to set expectations, metrics, and incentives that are tightly aligned with achieving high-quality objectives.

We have also made substantial, comprehensive investments to improve the consistency of audit execution and respond to evolving investor demands. With emerging capabilities and technologies, such

as data analytics and artificial intelligence, and smarter approaches to managing and monitoring audit teams and the audit process, we continue to accelerate our progress. Our investments also include working collaboratively across our global network to develop and deploy intellectual capital to achieve consistent execution of high-quality audits around the world. The companies we audit and the investing public will benefit directly from these advancements.

“We are making substantial investments in transforming the way we execute audits by leveraging advanced technologies that help us focus our audit procedures on the highest risks; providing deeper insights for clients to consider; and, ultimately, driving higher levels of quality.”

—Dave Sullivan
National Managing Partner,
Quality & Professional Practice
Deloitte & Touche LLP

Audit Imperatives

We have deployed global Audit Imperatives that provide core principles and priorities for executing the highest-quality audits, and that highlight for engagement teams critical actions and considerations that can be taken on all engagements around the globe in driving professional excellence.

Core Quality Principles



Act with integrity, ethics, and professionalism



Recognize the important role of auditors



Always learn



Continually improve



Live audit quality

Audit Priorities

- 1 Internal control
- 2 Risk assessment
- 3 Accounting estimates
- 4 Consultations
- 5 Transformation of audit delivery
- 6 New accounting standards
- 7 Optimization of audit execution
- 8 Supervision



Understanding the needs of our stakeholders

As we continue to transform the audit process, we believe it is imperative that our actions are informed by outside perspectives and stakeholder expectations. Ongoing collaboration with key stakeholders helps guide our efforts to improve audit quality. Leveraging insights and experience from across our multidisciplinary organization, we engage with audit committees, collaborate across the profession, and bring investors into the dialogue. We are committed to sharing our latest and best thinking to help make an enduring impact on the capital markets.

Audit Quality Advisory Council

Our Audit Quality Advisory Council (AQAC), formed in 2013, comprises eminent representatives from a cross-section of disciplines.

Members of the AQAC provide input to Deloitte based on current and prior leadership roles and experiences as academics, regulators, investors, standards setters, former auditors, audit committee members, and public company executives. Our dialogue with the AQAC is robust and focuses on topics shaping the future of the profession, such as our initiatives related to continuous quality improvement in the United States and globally, innovation and transformation, implementation of new accounting and auditing standards, and the future of assurance. Members of our AQAC include:



Daniel Goelzer, Chair

Mr. Goelzer is a retired partner of the law firm Baker McKenzie LLP. He is a founding board member and former acting chair of the Public Company Accounting Oversight Board (PCAOB) and served as general counsel of the US Securities and Exchange Commission (SEC). He is a member of the Sustainability Accounting Standards Board.



Arnold Hanish

Mr. Hanish is retired from Eli Lilly and Company, where he was vice president and chief accounting officer. He is a former member of the PCAOB Standing Advisory Group and currently serves as a public company board member. In addition, he serves as chair of the audit committee of a municipality. Mr. Hanish is a member of the Financial Executives International Hall of Fame.



Jon Lukomnik

Mr. Lukomnik is a managing partner of Sinclair Capital LLC, a strategic consultancy to corporations, institutional investors, and the investment management industry. A member of the PCAOB Standing Advisory Group, he recently finished a decade as executive director of the Investor Responsibility Research Center Institute. He has been honored by the National Association of Corporate Directors, the International Corporate Governance Network, Ethisphere, and Global Proxy Watch, among others. Mr. Lukomnik has been the investment advisor or a trustee for more than \$100 billion in institutional investments in his career.



Zoe-Vonna Palmrose

Dr. Palmrose is the Accounting Circle Professor Emerita of Accounting at the University of Southern California. She served as deputy chief accountant for professional practice in the Office of the Chief Accountant at the SEC. She was a member of the Public Oversight Board's Panel on Audit Effectiveness and the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board Fraud Task Force.



Phil Wedemeyer

Mr. Wedemeyer is a board member at public and private companies. He served at the PCAOB as director of the Office of Research and Analysis and as a deputy director in the Division of Registrations and Inspections. He was also a member of the AICPA Auditing Standards Board. He retired from Grant Thornton LLP and was a partner for many years at Arthur Andersen LLP.

Engaging with audit committees and business leaders

As auditors, we take seriously our reporting relationship to each company's audit committee, embracing the opportunity to have candid, two-way conversations that strengthen audit quality and help the audit committee execute its fiduciary responsibilities. We are encouraged by recent trends in audit committee reporting, with many committees voluntarily enhancing the disclosure provided to investors around the rigorous oversight the committees provide of our audit services.

Our commitment to audit committees goes far beyond the individual engagement—it extends to being at the forefront of the conversations across the audit committee

community. We strive to contribute to strong governance by bringing thought leadership, industry knowledge, and business insights to every conversation, drawing on the vast pool of research and hands-on audit experience that Deloitte offers. We also recognize the unique insights, resources, and perspectives we can offer to business leaders across the C-suite. Our Center for Board Effectiveness provides executives, boards of directors, and others active in governance with resources pertaining to current boardroom issues and governance trends.

Investor outreach

We have enhanced and expanded our outreach to investors and stakeholders through the US Investor Engagement Council to focus on topics of mutual interest as we

strive to deliver the highest-quality audits. We engage with the investor community in a way that helps us to understand their perspectives, as well as build confidence in the audit and help shareholders act with more informed purpose. Our US Investor Engagement Council proactively tracks investor views on key regulatory and policy issues (e.g., proxy voting policies, PCAOB Investor Advisory Group agendas, SEC Investor Advisory Committee agendas, comment letters, and other public discussions), which we use to inform our own views and anticipate and address investor concerns. Additionally, the Deloitte Network plays a leadership role in the Global Auditor Investor Dialogue, a network of representatives from the leading global institutional investors and the six largest global accounting firm networks.



Audit committee and board programs

We have developed several programs and resources that help audit committee and board members fulfill their responsibilities.

[Audit Committee and Board Symposiums](#)

These annual two-day events cover topics that are top-of-mind for audit committee and board members and give attendees the opportunity to share insights and engage in lively discussions with peers. This year, 138 audit committee members, representing approximately 230 company and board affiliations, attended our Audit Committee Symposium and 75 board members, representing approximately 130 company and board affiliations, attended our Board Symposium.

[Audit Committee and Board Labs and Education Programs](#)

Unique, customized experiences designed to help boards and audit committees explore their responsibilities, priorities, and practices, these half- to one-day sessions focus on enhancing the performance of audit committee and board members, both as individuals and as part of a high-functioning team, especially during times of transition. The facilitated programs incorporate leading practices from our research, extensive experience with audit committees and boards, and advance input from the participants' key stakeholders. In addition, tailored director development education programs are offered to audit

committees and boards seeking to better understand their role and responsibilities, and to assess whether their topics of focus are well aligned with their respective organization's strategy and objectives.

[Board Governance Dialogue](#)

Held in select locations across the United States, these board-level events provide insights on timely business and governance topics and the opportunity to engage with peers. Featured topics include innovation and disruption; culture, brand, and reputation; and the board's oversight role in cyber.

[Board-Readiness Programs](#)

These educational and networking programs are offered to highly skilled active and retired executives who have an interest—and the experience—to be considered for nomination to a public company board or directorship, but who might not have a playbook for starting the journey. The program agenda may include subject matter specialists, such as current board members, board committee chairs, and search firms, sharing their experiences and insight into becoming a board-viable candidate. A select number of senior executives are invited to each session, which makes for an intimate and in-depth exchange of ideas. More than 1,000 current and retired executives participated in our Board-Readiness programs in 26 different marketplaces across the United States over the past year.

Audit committee and board insights

We also provide timely, objective, and thought-provoking research developed for the benefit of boards of directors, audit committee members, C-suite executives, investors, and other governance leaders. To access these and other resources, visit www.deloitte.com/us/boardeffectiveness. You may also opt to access and subscribe to many of Deloitte's articles, newsletters, webcasts, and more via this link: <https://my.deloitte.com>.

[Audit Committee Resource Guide](#)

An audit committee resource that provides an overview of the requirements, common practices, and considerations for US public company audit committees.

[Audit Committee Disclosure in Proxy Statements—2018 Trends](#)

An annual analysis of the S&P 100 companies' proxy statement disclosures—including the rate at which companies are voluntarily disclosing information.

[Audit Committee Brief](#)

A periodic publication that provides audit committee members with recommendations, overviews of corporate governance resources, regulatory and legislative environment outlooks, and technical updates. The Audit Committee Brief has nearly 30,000 subscribers.

[On the Board's Agenda](#)

A series of articles sharing insights on how audit committees and boards may move their organizations forward, both cohesively and successfully, while facing the challenges of today.

[Missing Pieces Report](#)

This multiyear study published by the Alliance for Board Diversity, in collaboration with Deloitte for the 2016 and 2018 censuses, provides powerful metrics on the slow change of diversity in the boardroom, and may help encourage corporate boards to continue to embrace the benefits of diverse board composition.

[Board Practices Report](#)

This 11th edition of the Board Practices Report, a collaborative effort between Deloitte's Center for Board Effectiveness and the Society for Corporate Governance ("Society"), presents findings from a survey distributed to the public company members of the Society during the fourth quarter of 2018. The report's theme, "Common threads across boardrooms," illustrates a focus on the threads—or board and board committee practices and oversight motifs—that are woven together to create what governance is today, such as culture, talent, strategy, risk, technology, innovation, and board governance.

Market insight

Financial statement audits continue to be a fundamental pillar of the capital markets, helping investors make informed decisions and invest with confidence. Driven by innovative solutions, the use of cognitive technologies, and advanced analytics, financial statement audits continue to evolve and adapt to a rapidly innovating business world. This evolution of audits is designed to contribute to greater audit quality as well as continue to provide management and audit committees with more valuable insights.

We continue to proactively seek perspective from key stakeholders through surveys and research that we conduct throughout the year to help guide our thinking and inform our work. In 2018, we commissioned Wakefield Research to independently survey 300 CEOs and CFOs and 100 audit committee members to continue to better

understand the value and impact of financial statement audits as well as the evolving role of technology in a company's financial reporting process. The 2018 survey serves as a follow-up to our [2016 Audit Value Survey](#), which highlighted that C-suite executives were looking for broader and deeper insights that can help them make smarter, more informed decisions.

The results of the 2018 survey confirm that today's business leaders continue—as they did in our 2016 survey—to recognize and value the audit as an indispensable strategic business asset that delivers outstanding quality and provides valuable insights that can help identify opportunities to improve business performance. Our survey showed that 79 percent of C-suite executives and 99 percent of audit committee members agree that today's audits deliver valuable business insights.

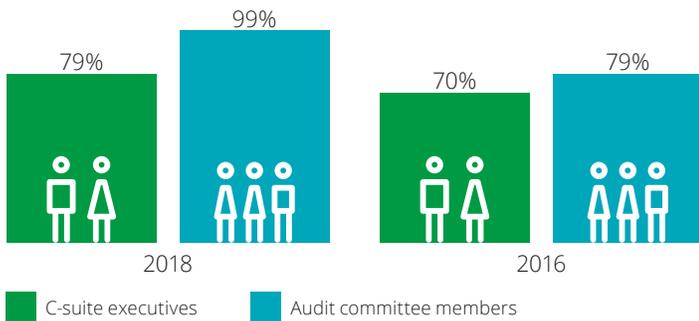
“Today's corporate leaders understand that investors seek information that goes beyond the traditional parameters of basic financial statements—information that can impact markets more profoundly than ever before. We are continuing to make significant investments in how we deliver audits to enhance quality and meet the evolving needs of the capital markets.”

—Lara Abrash
Deputy Chief Executive Officer
Deloitte & Touche LLP

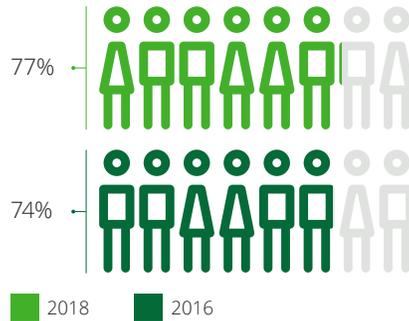
Deloitte's Audit Value Survey results

Audits continue to deliver valuable business insights

Our 2018 Audit Value Survey shows that 79 percent of C-suite executives and 99 percent of audit committee members agree that today's audits deliver valuable business insights.



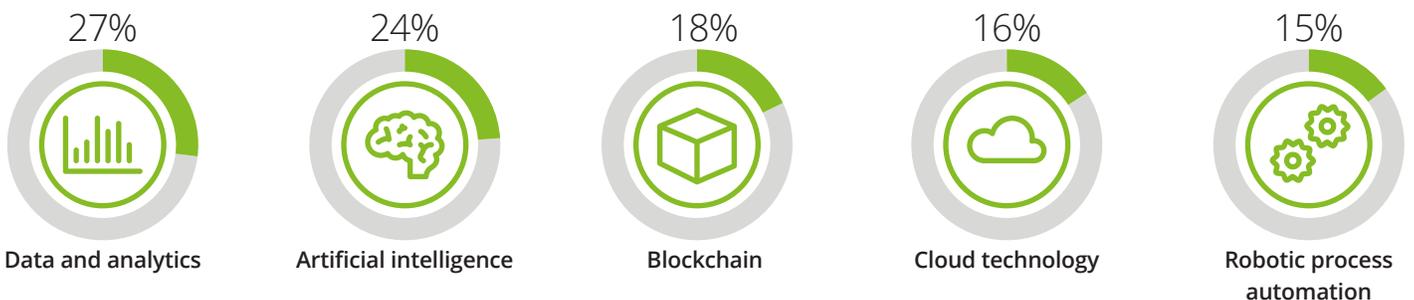
Percent of C-suite executives who reported that financial statement audits will help management identify opportunities to improve business performance.



Tools and technologies continue to impact the financial reporting process

Respondents identified data and analytics as having the greatest impact on their company's financial reporting process in the next five years.

Tools and technologies identified as having the greatest impact on a company's financial reporting process in the next five years



Transforming the audit through innovation

We are committed to transforming the audit through innovation and continuously evolve the way we execute high-quality audit services. When we imagine the audit of the future, we see it as an even more valuable enabler of our vibrant capital markets—an audit that leverages advanced technology solutions and data analytics, embodies continuous innovation, applies agile auditing, is grounded by risk-based methodology and workflows, and showcases the skills and experience of our professionals. By harnessing these capabilities, we are elevating quality, providing objective insights, and delivering a differentiated audit.

Our commitment to quality, proven innovation, and diversity of thought are the cornerstone of our transformation efforts. To date, we have invested several hundred million dollars to transform the audit. Our dedicated Audit Transformation team of nearly 350 global professionals draws on the resources and best thinking from across Deloitte’s multidisciplinary organization and global network of member firms. The team

collaborates with technical specialists, developers, designers, consultants, data scientists, and strategists to create innovative solutions and approaches that are transforming the way we deliver the audit.

Transformative technologies

At Deloitte, we are constantly sensing and evaluating emerging technologies that can transform how we approach the audit. We have made significant investments in developing a suite of audit tools that leverage leading-edge technologies, such as cognitive, data analytics, and workflow automation. Given the dynamic and rapidly advancing state-of-play in our technology ecosystem, it is critical for us to build and utilize platforms that allow for the flexibility to continuously include new features and functionality. We design our data analytics and next-generation audit platforms with this principle in mind to assist our clients in benefiting from ongoing advancements. We are seamlessly integrating our suite of cutting-edge tools into Deloitte Omnia—our global, cloud-based, next-generation audit platform—to achieve our vision for a digital

audit and establish the infrastructure to add future advanced technologies.

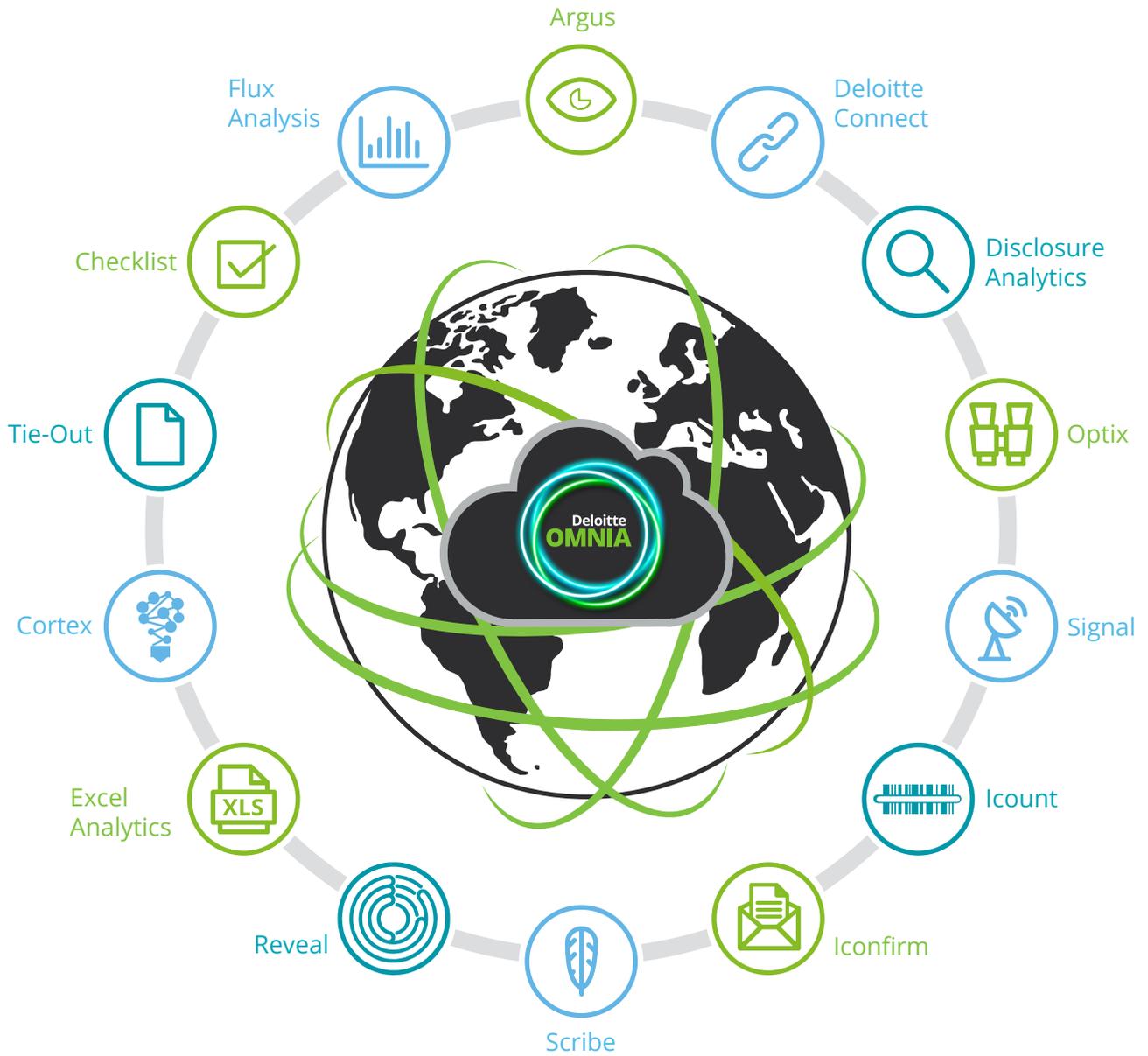
As we look to the not-so-distant future, one thing is certain—the rapid progression of technology and new exponentials will continue to drive the evolution of the audit and how the profession serves the capital markets. For example, distributed ledger technology, such as a blockchain, has the potential to revolutionize how financial transactions are recorded and stored. This could have a deep and widespread impact on our profession and how we audit both financial statements and internal control over financial reporting. As we move toward a more data-driven, connected future with the “Internet of Things,” the use of drones for asset verification (digital evidence capture), and the rise of machines that are truly intelligent, we anticipate new technologies featuring secure communication between intelligent systems, ledgers, and devices with less human involvement. These advancements will likely enable near real-time, transparent, and analytics-based audit procedures that allow auditors to focus their attention on the most strategic and impactful activities.

The audit of the future



We are committed to continued investment in emerging technologies that enable the delivery of enhanced quality, insights, and value to our clients and the markets. Furthermore, our commitment to robustly invest in a technology-driven future is complemented by our deep commitment to audit quality, data protection, confidentiality, and maintaining cybersecurity defenses aligned to industry best practices.





Two-time innovation award winner and industry recognition



The Deloitte Network’s steadfast commitment to leading the profession in audit quality and innovation continues to garner international accolades. Cortex, our data analytics platform, was named "Audit Innovation of the Year" at "The Digital Accountancy Forum & Awards 2018." Sponsored by The Accountant and International Accounting Bulletin, this prestigious award recognizes demonstrated dedication to innovation and transformation of the audit.

This marks the second time in four years that Deloitte has captured this coveted award. In 2015, Deloitte was recognized with the "Audit Innovation of the Year" award for our demonstrated dedication to innovation and the development of leading-edge tools to transform audit service delivery, in particular for Argus. Deloitte was a finalist for leading innovation tools and applications—Icount, Signal, and Disclosure Analytics—in 2016 and 2017.

Our current suite of technology capabilities enhances audit quality and value by providing deeper insights and a sharper focus on areas of risk, driving more meaningful conversations and an enhanced audit experience. A sample of our innovative technology solutions includes:

Cognitive



Argus—Electronic document interrogation and analysis

Leverages cognitive technologies, such as advanced machine learning and natural language processing, to quickly process, highlight, and extract key information from electronic documents—to focus on what matters most. Argus leverages trained learning extraction fields (e.g., lease attributes) and helps our professionals provide meaningful insights, including a summary of key analytics across an entire population of documents.



Tie-Out—Automated financial statement report tie-out process

Assists auditors in referencing the financial documents (e.g., Form 10-K and Form 10-Q). Through automatic data processing, a streamlined review process, and automatic calculation of quantitative amounts within the financial statements, Tie-Out improves auditor effectiveness and efficiency and enhances audit quality.

Data analytics



Optix—Advanced data analysis of journal entries

Analyzes large data sets in near real time to uncover hidden patterns, trends, and risks in journal entry populations, providing important operational and control insights. Optix has already processed more than 74 billion journal entry records.



Cortex—Data analytics and visualizations

Extracts and prepares client data, and then works seamlessly with our suite of advanced technologies to harness the power of data—providing the ability to view businesses through a powerful analytics lens that enhances audit quality and generates valuable insights.



Reveal—Sophisticated regression analysis

Applies a sophisticated regression analysis to illuminate account balance relationships and provide predictive modeling that helps our professionals across our global network identify areas of audit interest for potential further scrutiny.



Signal—Comprehensive risk analytics

Examines a wide range of industry data and identifies potential risks using trend and regression analysis, which alerts our audit teams to the indicators of risk so that our teams and clients can get in front of potential issues, rather than waiting to find them after they have occurred. The use of Signal is mandatory for all of our US public company audits.



Disclosure Analytics—Advanced data science platform

Analyzes and curates publicly available financial information to enable more comprehensive and data-driven risk assessments, industry benchmarking, visualizations, and financial statement analytics. Combining big data science with data scrapes from external sources helps auditors identify unique patterns and insights in near real time. Disclosure Analytics has been rolled out globally to search US-based content.

Workflow automation



Deloitte Connect—Online communication, information sharing, and progress tracking

Enables clients across the globe to communicate and share information seamlessly with the Deloitte audit team—and to effectively monitor and manage audit requests—via a secure online site. Deloitte Connect is used globally by more than 240,000 Deloitte Network professionals and clients to share millions of documents in real time.



Iconfirm—Automated management of the audit confirmation process

Coordinates multiple stakeholders in the confirmation process via an online platform to support high-quality audits. Iconfirm offers a differentiated experience for our professionals and clients across the globe by automating and streamlining the confirmation process, including preparing, sending, receiving, and monitoring activities. In 2018, Iconfirm was used to process more than 300,000 confirmations.



Icount—Mobile-enabled inventory counts

Allows our audit professionals across the Deloitte Network to use mobile devices to perform physical inventory observations and transmit results in real time while on site, enabling the audit team to monitor and review location counts instantly using the Icount Web-based application.



“Innovation is embedded into Deloitte’s culture. Every day, our professionals leverage advanced technologies and enhance their skills to deliver an audit with high quality, deeper insights, and value to our clients. As we imagine the future, the rapid progression of technology will continue to drive innovation in how we approach audits. Deloitte is not only keeping pace—we are leading the way.”

—Jon Raphael
National Managing Partner,
Transformation
Deloitte & Touche LLP

Transformative approaches

In addition to leveraging innovative technologies, we are transforming our audit delivery approach by continually enhancing our methodology, defining optimal workflows for how the work gets done, applying agile principles to how we manage the audit, and rethinking how we structure engagement teams.

Audit methodology and workflows

Our risk-based methodology establishes the foundation of our audit approach, providing the scalability necessary to meet the unique needs of our clients across all market segments and the flexibility for our professionals to tailor their audit procedures in response to the assessed level of risk. Our audit methodology is complemented by our Deloitte Way Workflows, which standardize workflows and reference other applications that assist in risk assessment, stimulate critical thinking, and help to define and refine our audit responses. Our dedicated team of global professionals across the Deloitte Network has successfully published more than 50 Deloitte Way Workflows—providing enhanced global processes and procedures to consistently address general and industry-specific risks. Paired with our methodology, Deloitte Way Workflows enhance how work is performed, indicate when to apply our suite of innovative technologies and advanced data analytics capabilities, recommend how to leverage our audit centers of excellence, and demonstrate delivery of value through insights. Collectively, our global methodology and workflows are enhancing quality, driving consistency in audit execution, and evolving our approach toward a digital audit experience.

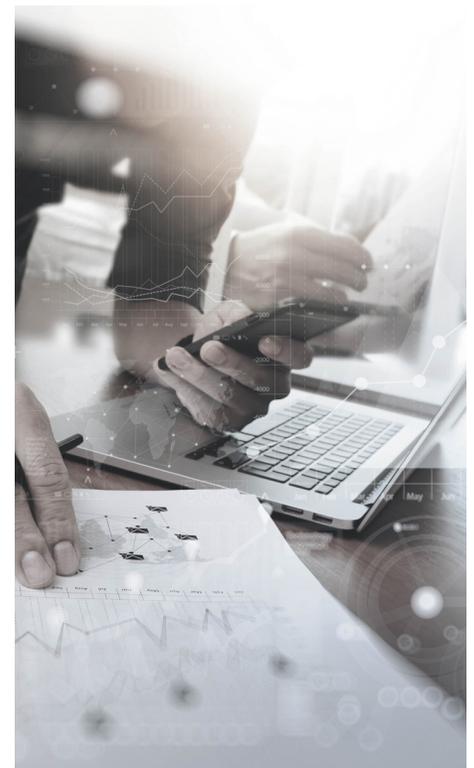
Project management and Agile Auditing™

Project management is critical to audit quality. Our center of highly specialized project managers provides operational and project management support to our audit teams. Further, we continue to pilot Agile Auditing—a set of agile principles combined with our innovative audit approach to enhance communication, transparency, workflow, timeliness, and the quality of our audits. As we utilize agile principles to fuel further audit innovation, we are exploring how to apply Agile Auditing principles to other processes and considering the value it can provide to clients and stakeholders.

Centers of excellence

We continue to redefine how we structure engagement teams to more deeply embed specialists and leverage professionals with industry and subject matter experience. With more than 2,300 professionals operating across three offshore locations, our centers of excellence of highly skilled and experienced professionals focus on audit matters unique to key industries, as well as on audit areas that are industry agnostic, such as goodwill and employee benefit plans. We also have professionals in technology hubs focused on areas such as advanced robotics capabilities. Our offshore audit professionals receive similar training, and supervision and review of their work as our onshore professionals, delivering high quality throughout the audit process. Our centers of excellence are expanding to drive audit consistency and execute high-quality audits delivered via our Deloitte Way Workflows.

We have also established onshore centers with specialist competencies, such as data analytics. Over the past two years, the number of our audit analytics specialists has increased more than 40 percent with onshore data analysis specialists supporting audits in the United States and exploratory data analysis specialists working offshore. We are also building additional onshore capabilities to drive audit consistency for industries and clients that cannot have audit procedures performed offshore. Our centers of excellence give audit teams access to a pool of professionals with deep experience and knowledge in a specific audit area, industry, process, or technology.



Investing in tomorrow's talent

Deloitte is a recognized leader and employer of choice, with a leadership environment focused on the development and well-being of our professionals. We have been at the forefront of fostering an inclusive culture that invites authenticity, cultivates a sense of community, values diverse experiences and perspectives, and enables our professionals to play to their unique strengths. We are consistently ranked as one of the best places to work and honored for our inclusive culture and increasingly diverse workforce. On our most recent annual talent survey, Audit & Assurance professionals indicated they were proud to be a part of Deloitte, reinforcing our spot on the Fortune 100 Best Companies to Work For list.

The reason for our success is straightforward: We invest in our people to give them opportunities to grow and thrive. In developing our people, we provide broad experiences through various programs, including internal and external learning programs, and through our global mobility programs, which provide our professionals with opportunities for an international working experience through long- and short-term assignments and projects. A global assignment provides an opportunity to enhance an individual's global mindset and overall career experience, as well as share knowledge and experience across the Deloitte Network. Additionally, our transformed approach to audit delivery is enabling our professionals to use more advanced analytics and technologies on the audit, apply more critical thinking, spend more time applying professional judgment, and gain a deeper understanding of a client's business and industry—all contributing to enhanced audit quality and an improved experience for our people. We are investing in resources with specialized skill sets, such as analytics and project management, to enable our auditors to work across a diversified team of professionals with differing capabilities and interests—while continuing to deliver consistent and high-quality audits to our clients.



Deloitte University

To help our professionals achieve higher levels of performance, we invested \$300 million to establish Deloitte University (DU), a state-of-the-art learning and leadership development center. Our professionals have logged more than 5.4 million learning hours at DU since its inception in 2011.

In 2018, we implemented the Audit Analytics Fellowship Program, which includes a week-long intensive training program for Audit & Assurance seniors to develop advanced skills in the use of audit analytics. As part of the fellowship, professionals complete a rotation with our audit analytics specialist organization, where they apply what they learned on various analytics projects, conduct learnings, and serve as a local office resource. More than 100 professionals have participated in the program.

As a part of our talent strategy investment, we have transformed our technical audit curriculum. Our Audit & Assurance professionals have logged nearly 900,000 hours of learning over the past year. At the core, we have a mandatory technical curriculum targeting learners by level of experience, using a dynamic mix of live, instructor-led virtual courses and on-the-job activities. The mandatory curriculum is evaluated annually to enhance content, method, and approach of delivery so that professionals are receiving the technical information necessary for performing quality audits. All client service professionals of Deloitte & Touche LLP are required to complete at least 20 hours of continuing professional education (CPE) each year and at least 120 hours every three years. Professionals who spend more than 25 percent of their time on audit or other attest engagements, or who have partner, managing director, or manager responsibilities for such engagements, must devote at least 40 percent of their minimum

required CPE hours to accounting and auditing. In addition, we have mandatory technical learning requirements. We monitor extensively for compliance and equip learners to bring lessons back to the engagement team where they can be applied to fieldwork.

Our talent strategies enable our professionals to enhance their existing capabilities, gain new skills, explore new career paths, and continue delivering audits of the highest quality. In 2018, 100 percent of our professionals (senior managers and below) have signed our Audit Quality Affirmation, confirming their commitment to professional excellence through the execution of our Audit Imperatives.

Mandatory core learning hours for Audit & Assurance professionals¹

Audit & Assurance professionals	2018	2017
Staff	65-66	63-77
Seniors	35-85	33-88
Senior managers and managers	24-32	28-37
Partners and managing directors	23	33

Average learning hours completed, including mandatory core hours, per professional were 89 hours in 2018 and 91 in 2017.

¹ In addition to core learning, we also provide a variety of other non-technical, industry, professional, and leadership training that is not included in the table. Fluctuations in the core technical hours depicted will occur from year to year due to the changing needs of the profession, including for example courses that may be required in a particular year due to new accounting standards or other hot topics.



“Technology has transformed the role of auditors, and Deloitte is committed to developing diverse professionals who succeed as auditors of the future. Not only do our professionals have solid technical accounting and audit skills, but we are also dedicated to helping them broaden their capabilities to include strong critical thinking, relationship building, and analytics and data science skills. Additionally, we are collaborating with academia to help ensure students pursuing an audit career are positioned for success.”

—Wendy Fletcher

National Managing Partner,
Talent
Deloitte & Touche LLP

Developing the auditor of the future

As we progress through our transformation journey, we will continue to invest in our people to stay ahead of the demands of our profession in today's competitive, technology-driven landscape. Our professional development model incorporates technical, industry, and nontechnical education. In addition to technical auditing skills, professionals gain industry knowledge and nontechnical capabilities, such as data and analytics expertise; project management and productivity; strategic and critical thinking; skills to be technologically savvy; and written and verbal communications capabilities through our mandatory curriculum. We are also expanding optional industry and nontechnical choices outside of the mandatory curriculum, with a particular focus on advanced data and analytics and professional practice development. All seniors through senior managers are required to complete at least 12 additional learning hours from coursework beyond their mandatory technical requirements. Our holistic curriculum is supported by our Audit & Assurance 360° learning system, which allows our professionals to work with their coaches and tailor industry and nontechnical curricula more closely to their needs, specify on-the-job experiences that will help them grow, and gain exposure to people and projects that will expand their professional competence.

Advancing next-generation learning

We continue evolving our learning platforms, leveraging innovative approaches and new technologies, and creating more consistent learning experiences around the globe.

Proficiency programs are one area we are piloting. This year, we launched a new data proficiency program to enable professionals' expansion of data analytics capabilities at a pace convenient to their preferences and existing capabilities. The program incorporates multiple learning formats followed by an assessment. After passing all assessments, learners practice by applying their new knowledge through an online simulation capstone. Longer-term proficiency programs enable learners to gain knowledge through various self-directed learning formats at an individual pace aligned to their chosen career path.

We are working with other member firms within the Deloitte Network to redesign curricula globally for all levels of staff and seniors into integrated development programs, complete with pre-work, multiday in-person classroom programs, and reinforced learnings to support ongoing application. These updates create consistent development experiences across the globe, with a modular design that enables a more agile learning approach that is responsive to our focus on audit innovation and transformation while making effective use of learner time and improving the learner experience.

In addition, we are collaborating with colleges and universities to help inform, shape, and support curriculum to prepare students for the work of the future. In 2019, we will launch our inaugural Audit & Assurance Faculty Symposium to:

- Drive awareness of the audit profession evolution, Deloitte's audit transformation, and the desired skill set necessary for future hires
- Increase our understanding of how colleges and universities are responding to these changes to better prepare students as auditors of the future
- Provide faculty with takeaways they can apply in the classroom and identify additional opportunities to collaborate between accounting faculty and Deloitte

Developing a culture of innovation

As we continue to advance our audit and assurance services, our professionals are generating the next big ideas for investment. Through our annual crowdsourcing Audit & Assurance Innovation Challenge (the “Challenge”), competing teams of Audit & Assurance professionals develop and pitch bold ideas to transform how we approach and deliver audit and assurance services. Since launching the Challenge in 2015, more than 700 ideas have been submitted, and we are committed to investing each year in the winning ideas. Since inception, winning ideas have included our award-winning data analytics platform, Cortex, a center of excellence for robotics process automation, and more.

Additionally, together with the Deloitte Foundation, we host the annual Audit Innovation Campus Challenge to help better prepare students for careers and engage academia in our culture of innovation. Students are invited to challenge their thinking and put their research and technology skills to the test by presenting their ideas to a panel of Deloitte judges. The competition has grown to include more than 50 campuses across the United States, with winning regional teams advancing to the finals at Deloitte University each spring.



Empowered Well-being

We have made significant strides to continue to build a culture of well-being at Deloitte by providing opportunities for our professionals to enhance their holistic self in body, mind, and purpose. Through the Empowered Well-being approach, Deloitte provides benefits and programs, well-being educational offerings, flexibility options, and engages leadership at all levels in open and honest discussions on well-being needs. In 2018, we launched an Audit & Assurance Empowered Well-being Week, which included daily messaging with exercises, tools, and a team wellness challenge. In 2016, Deloitte introduced a 16-week, fully paid family leave program to support a range of life events impacting professionals and their families—from celebrating the arrival of a new child, to caring for a spouse or significant other, to supporting aging parents. Since its implementation, more than 5,000 Deloitte professionals have benefited from the family leave program.

As a result of these and other ongoing initiatives, we remain committed to our

professionals’ well-being and to supporting our professionals during their time at—and away from—work.

Tenure at firm (in years)

	2018	2017	2016
Partners and managing directors	22.0	21.6	21.3
Senior managers	11.2	11.1	11.1
Managers	6.3	6.3	6.2
Seniors	3.4	3.4	3.3
Staff	1.3	1.3	1.3

Voluntary turnover rate

Our overall rate includes partners, managing directors, senior managers, managers, seniors, and staff.

2018	2017	2016
15%	15%	14%

A recognized leader in the workplace

The collage features four distinct award logos:

- LinkedIn Top Companies:** A circular logo with the text "TOP COMPANIES WHERE THE US WANTS TO WORK NOW" and "2018".
- Glassdoor Best Places to Work:** A logo with the text "2018 BEST PLACES TO WORK TO WORK EMPLOYEES' CHOICE".
- Most Attractive Employers:** A circular logo with a red geometric shape and the text "MOST ATTRACTIVE EMPLOYERS USA UNIVERSUM 2018".
- Best Places to Work for LGBTQ Equality:** A logo with the text "BEST PLACES TO WORK 2018 for LGBTQ Equality 100% CORPORATE EQUALITY INDEX".



Our commitment to inclusion is widely recognized

Deloitte has been helping shape corporate America’s inclusion landscape for more than 25 years—in 1993 we became the first professional services organization to formally focus on inclusion with the launch of our women’s initiative. While much has changed over the years, a few things have remained constant: leadership commitment, continuous evolution, and an innovative approach to fostering an inclusive culture.

Today, our approach to inclusion is two-fold—we are attracting, retaining, and advancing a diverse workforce, and we are strengthening our inclusive culture where all of our people can:

- Connect through our shared values and the impact we make on the world,
- Belong to a team that believes in them and values who they are, and
- Grow through meaningful opportunities.

We are active in the community and support a number of organizations that share our commitment to a diverse workforce and inclusive culture. These collaborations focus on issues that are impactful to our business and our people, such as building a more diverse science, technology,

engineering, and mathematics (STEM) talent pipeline, preparing students for college and a career, connecting with women and minority students through development opportunities, helping veterans transition to a business environment, and advancing research on inclusion.

In 2017, we signed the CEO Action for Diversity & Inclusion™ pledge, which is the largest CEO-driven business commitment to advance diversity and inclusion within the workplace. In 2018, we announced our support for the UN Global Standards of Conduct for businesses to tackle discrimination against people who are LGBTI.

We have also taken several actions to cultivate an inclusive culture at Deloitte. In 2018, we hosted a “Day of Understanding” across the United States for Deloitte professionals to have candid conversations around diversity and inclusion topics and address how we can support each other and strengthen our inclusive culture. We also launched The Inclusive Leader Experience, an immersive training for our leadership to develop a robust understanding of unconscious bias and the tools to mitigate it, with a focus on awareness, reflection, and personal action.

With leadership commitment and an innovative mindset, Deloitte has been leading with our inclusive culture and we are proud of the results. Deloitte was the first professional services organization to elect a woman CEO, a minority CEO, a woman chairman, and a minority chairman. Currently, more than 50 percent of our Deloitte US Board of Directors are women and/or minorities, and for the past four years, 50 percent or more of new partners, principals, and managing directors within Deloitte—and specifically Audit & Assurance—have been women and/or minorities.

Attracting, retaining, and advancing a diverse workforce is clearly a priority. So too is strengthening our inclusive culture where all our people can connect, belong, and grow. In fact, two of the four top-rated questions on our annual talent survey are related to our inclusive culture.

Annual talent survey

Best-in-class results on our inclusive culture:

- I am treated with respect at work
- I really enjoy working with my team



Celebrating our year-round commitment to our communities



On our annual day of service—**Impact Day**—we volunteer at various organizations across the United States to drive social impact.



For **19** years, our leaders and professionals have come together to make an impact that matters in the communities where we live and work.



This past year, nearly **24,000** people in **80** US cities participated in more than **1,000** projects for nearly **180,000** collective hours of service.

Monitoring our practice and holding ourselves accountable

Our commitment to delivering high-quality audits requires us to develop techniques to centrally monitor the progress of audits on a real-time basis; effectively analyze results and understand the causal factors related to audit deficiencies identified through internal and PCAOB inspections; and be rigorous in our evaluation of both financial statement and internal control report restatements. We leverage information obtained from our Assurance Insight & Analysis group and in-flight monitoring programs to help us continuously monitor audit quality and assist with the identification of issues for timely resolution.

We aspire always to be our own toughest critic, and our internal inspections and monitoring processes aim to swiftly identify and course-correct practice deficiencies of all kinds. Our monitoring programs are critical to achieving our continuous improvement objectives and enable us to ascertain the effectiveness of the actions we take to enhance audit quality.

Setting the standard

Regulatory inspections and outside perspectives are critical to raising standards and achieving quality outcomes—we value the feedback received through the external inspection process. Our system of quality control utilizes input from various sources to continually improve the quality of our audits. These sources include:

- For SEC issuer engagements, rigorous inspections by the PCAOB of public company audits to help focus our continuous improvement efforts.

Recent inspection results

Number of audits inspected and those cited in Part I of our Deloitte & Touche LLP PCAOB inspection reports



- For non-SEC issuer engagements, the AICPA triennial peer review process is conducted to provide additional observations concerning quality. Our next peer review is in 2020.
- Ongoing dialogue between Deloitte leadership and our external and independent AQAC to help us better understand third-party needs and help us elevate quality to the benefit of the capital markets.
- The evaluation of restatements of previously issued reports on (i) financial statements and/or (ii) internal control over financial reporting to help us design further enhancements to our quality processes for detecting errors during an audit.

Reissuance restatements by year as a percentage of public companies audited

2018	2017	2016
0.2%	0.5%	1.6%

Internal control over financial reporting reports restated by year as a percentage of public companies (that are accelerated filers) audited

2018	2017	2016
0.2%	0.9%	1.6%

Looking at our audit work through these lenses orients us in our pursuit of quality, providing feedback on areas where we need to improve that is thorough, detailed, and uncompromising.



Selected resource metrics we use to continuously monitor audit quality

Sufficient engagement management capacity is critically important to allowing experienced professionals to challenge management judgments appropriately and to provide on-the-job guidance and development of more junior members of the engagement team. While there are many engagement-specific considerations that must be evaluated when determining appropriate leverage models, our quality monitoring has identified the proportion of engagement management to total engagement personnel as an important factor in relation to audit quality.

Leverage ratios of Audit & Assurance headcount

Audit cycle	2018	2017	2016
Partners and managing directors to all other Audit & Assurance personnel	1 to 8.0	1 to 7.6	1 to 7.7
Partners, managing directors, senior managers, and managers to seniors and staff	1 to 2.1	1 to 2.1	1 to 2.1

Ratio of Audit & Assurance partners and managing directors serving in a technical professional practice role

Audit cycle	2018	2017	2016
Partners and managing directors serving in technical professional practice roles to all partners and managing directors	1 to 7.1	1 to 7.0	1 to 6.8

During the 2018 audit cycle, approximately 19 percent of total audit hours were performed by more than 6,000 specialists working alongside engagement teams, including specialists in tax, information technology, and financial transactions, among others. This percentage can vary from year to year depending on specialized issues impacting the financial reporting processes of our clients. We consistently deploy resources with the appropriate specialized skills to execute our audit procedures at a high level of quality.

Percentage of total audit hours performed by specialists

Audit cycle	2018	2017	2016
Percentage of total audit hours performed by specialists	19%	18%	19%

Optimizing audit execution

Our causal factor analysis indicates that audit quality can be enhanced by actively working to distribute audit activities more evenly throughout the calendar year, reducing the workload for our clients and Audit & Assurance professionals during peak audit periods. In addition, this enables us to understand and manage risks more effectively and tackle important issues as they arise. While difficult to capture in a single metric, we have meaningfully “shifted the peak” and are realizing audit quality benefits as a result.



External and internal inspection processes and monitoring

Previously in this report, we shared a summary of our recent PCAOB inspection results. As detailed below, we are subject to various external and internal inspection processes and monitoring programs.



Public portion of PCAOB inspection reports (Part I)

PCAOB inspection reports on public company audits help guide our efforts. While we are proud of the improvements evidenced in recent PCAOB inspection results as compared to several years ago, we are focused on continuous improvement. We carefully analyze inspection themes, identify causal factors, and design responsive remedial actions to PCAOB findings. We are specifically focused on addressing areas of repeat findings, including the auditing of subjective management estimates and the auditing of complex internal controls with a review element.



Nonpublic portion of PCAOB inspection reports (Part II)

Under the Sarbanes-Oxley Act of 2002, quality control criticisms contained in Part II of PCAOB inspection reports are publicly released only if the PCAOB determines that satisfactory remedial actions have not been taken within 12 months of the report's issuance. Once the PCAOB determines that remediation activities have addressed quality control deficiencies cited in that year's inspection report to its satisfaction, or determines that portions will be publicly released because certain matters have not been addressed to its satisfaction, that inspection year is "closed."

In April 2018, the PCAOB determined that the remedial actions we took in response to Part II of the 2015 report addressed the quality control observations to the satisfaction of the PCAOB for the purposes of Section 104(g)(2) of the Sarbanes-Oxley Act of 2002, which closes the 2015 inspection cycle and represents our seventh consecutive year of PCAOB Part II acceptances. Our response to Part II of the 2016 inspection report was submitted on October 8, 2018. The PCAOB is currently reviewing this remediation response.

Our entire organization is committed to thoroughly addressing the quality control matters that the PCAOB raises in its inspection reports.



Peer Review

Having received a Pass rating on our most recent report from our Peer Reviewer in 2017, we are confident in the path we are pursuing to drive continued enhancements in quality in our non-issuer practice. We continue to sharpen our focus on non-SEC issuer audit quality through our audit transformation and innovation efforts. A rating of Pass means that Deloitte's system of quality control is determined to be appropriately designed and we are complying with that system. We are confident in the path we are pursuing to drive continued enhancements in quality in our private company practice.



Internal inspections

Our internal inspection themes are consistent with those identified by the PCAOB and Peer Reviewers, and we are continuously looking to improve our monitoring efforts. In general, we plan to perform approximately 200 inspections of completed and archived audits annually; the mix between public and private company audits is approximately equal. However, we perform a slightly greater share of private company inspections during our triennial peer review years.



Monitoring

We have implemented quality monitoring programs focused on the performance of engagements in progress to assess the implementation of our quality initiatives. These programs are designed to provide feedback to engagement teams, which can be incorporated into the audit prior to the issuance of the opinion. These programs, which are applied to approximately 100 engagements a year, also help inform whether the actions taken under our quality initiatives to continuously improve audit quality are having the intended effect, or whether we need further actions such as communications, training, or changes to our methodology, guidance, or tools. Each year, we reassess the scope and focus of our quality monitoring programs based on feedback from our internal and external inspection results and enhancements to our audit approach and methodology, including from the adoption of new audit and accounting standards.

Quality across the global Deloitte Network

With more than 286,000 professionals around the world, including more than 93,000 in the United States, in more than 150 countries and territories, the global Deloitte Network has unmatched scale to deliver.

As part of our commitment to lead the profession in audit quality, we are leveraging the experience of our US Audit & Assurance practice to advance audit quality and build consistency throughout the global Deloitte Network, sharing insights, action plans, and learnings from our ongoing audit quality journey in the United States.

The Global Center of Excellence (GCoE) for Audit Quality, launched in June 2015, aims to support Deloitte Network member firms in promoting, enabling, and continuously enhancing the quality and consistency of PCAOB audits delivered across the globe.

Since the inception of the GCoE, more than 700 US resources have worked to align global policies and guidance, deliver audit quality and regulatory updates, perform practice reviews, provide PCAOB inspection and remediation support, and develop and deliver focused learning. In addition to the formation of the GCoE, we also support the consistent delivery of high-quality audits for all audit engagements across the Deloitte Network through broader quality activities, including audit transformation.

The Deloitte Network has also invested in programs to transform the way audit quality is monitored and measured. The Deloitte Network's Audit Quality Monitoring & Measurement (AQMM) program, launched in 2016, is part of a comprehensive strategy to continuously improve audit quality and consistency through transforming the way the Deloitte Network monitors, measures, and remediates audit performance. A critical aspect of the AQMM program is a shift to more real-time quality monitoring on individual engagements to drive early identification and responsive actions to potential audit quality issues. Our commitment to improve audit quality and consistency across the Deloitte Network is unwavering.



Shaping the future of the profession

As one of the largest professional services organizations, we have a responsibility to be forward looking and committed to building a vibrant future for auditors and the profession. We are engaged in raising standards and helping investors and companies, as well as the general public and policymakers, appreciate and understand the auditor's role. To that end, we are constructively engaged in the dialogue around significant audit reforms, quality standards, market transparency, education, assurance services, and other topics critical to shaping the future of the profession.

Advancing auditing standards

Mindful of our duty to the investing public and our responsibility to promote the effective functioning of the capital markets, we work constructively with a range of stakeholders to shape proposals aimed at enhancing the effectiveness of audits.

Audit quality indicators

We support the exploration and development of audit quality indicators (AQIs), metrics intended to provide meaningful insight into audit quality, as we believe they have the potential to be a useful tool in helping audit committees increase their understanding of the audit process, the firm engaged to conduct the audit, and considerations for assessing audit quality. Deloitte and other firms have worked together with the Center for Audit Quality (CAQ) to develop the profession's point of view on AQIs and what we believe to be most helpful in terms of specific measures, and how those measures can be communicated most effectively. In addition, we have been engaged in the ongoing use of AQIs with a number of audit committees.

While no one metric alone can determine quality, we have made strides in identifying our own internal quality performance indicators (QPIs) that assist us in the management of audit quality. We utilize

an executive-level dashboard of these indicators that enables our leadership to monitor them at the office, regional, and national levels and drive timely follow-up actions. In this report, we have provided transparency around some of the QPIs we monitor across our practice. Further, we are pleased to share engagement-specific QPIs with audit committees that find this information to be useful.

Over the longer term, we believe the use of QPIs will become an increasingly valuable tool to assist audit firms in the identification of quality issues for timely resolution.

Auditor's reporting model

The auditor's report is the primary vehicle through which the auditor communicates with investors and other interested parties information regarding the audit of the financial statements and internal control over financial reporting. Investors and other financial statement users are now seeking more information about the conduct of an audit in general, and more information that is specific to a particular audit. In response, in 2017, the PCAOB adopted a new auditing standard on the auditor's report, which significantly expands the information to be provided about a financial statement audit, while retaining the current pass/fail approach to the auditor's report.

We supported this effort to increase the informational value, usefulness, and relevance of the auditor's report.

The key changes to the auditor's report under the standard are:

- Communication of critical audit matters (CAMs)
- Standardized ordering and inclusion of section headers
- Enhanced descriptions of the auditor's role and responsibilities
- Disclosure of auditor tenure

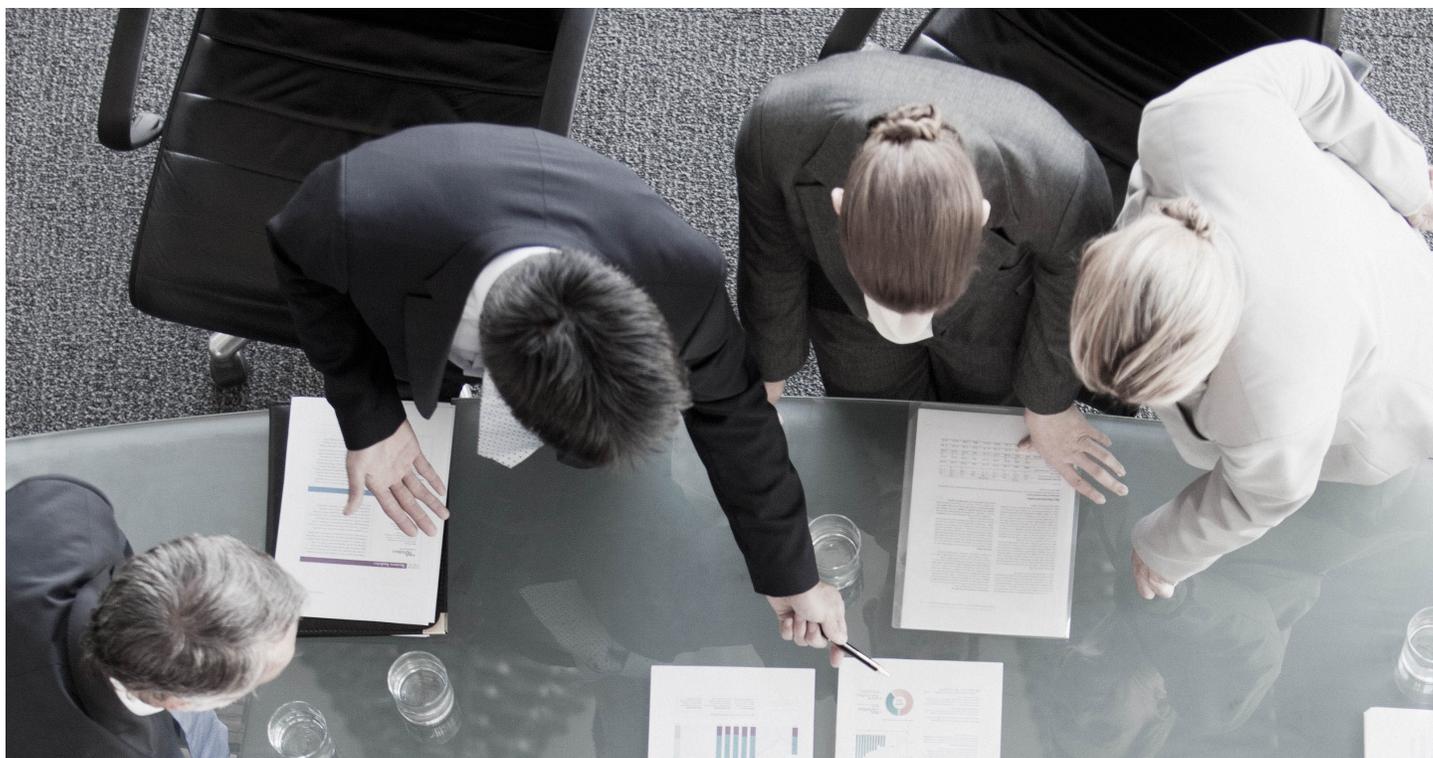
All of these changes, except for the communication of CAMs, were effective for audits of fiscal years ending on or after December 15, 2017. Communication of CAMs, the most significant change to the auditor's report, will begin to phase in for audits of fiscal years ending on or after June 30, 2019. A CAM is any matter arising from the audit of the financial statements that was communicated to the audit committee and that relates to accounts or disclosures that are material to the financial statements and involved especially challenging, subjective, or complex auditor judgment. We will continue to participate in a robust dialogue among various stakeholders, including investors, management, and audit committees, about our approach to communicating CAMs as we move toward full implementation of the new standard.

We see many benefits of the new standard, including greater insight into the audit provided by the independent auditor, a more informative and relevant auditor's report, enhanced discussion about CAMs between auditors and audit committees, and improved quality of financial reporting—all contributing to increased investor confidence in financial reporting. Our view is that the more information of value that auditors can provide to the users of financial statements, the greater the value and relevance of audits to the capital markets.

"A constructive and collaborative relationship with our regulators and key stakeholders is essential. Being transparent fuels the health of our capital markets and, ultimately, leads to greater trust and confidence in the audit profession."

—Alex Schillaci
National Managing Partner,
Regulatory & Global
Deloitte & Touche LLP





Improving the transparency of audits

Effective in 2017, the PCAOB set a requirement for audit firms to disclose on a new form the name of the engagement partner and certain other accounting firms that participated in an audit. We are supportive of this new requirement, which we believe achieves the overall objective of providing transparency regarding participants in the audit. It is our view that additional transparency makes audits more relevant and more valuable to the capital markets and enhances investor confidence in the rigor of the audit process.

Working together as a profession

We believe that elevating audit quality in the profession as a whole benefits the capital markets. We, therefore, take a leadership role in activities designed to elevate audit quality across the profession through the exchange of leading practices and informed advocacy on issues relevant to audit quality.

For example, Deloitte currently chairs the Governing Board of the CAQ, which was established in 2007 to foster high-quality performance by public company auditors and advocate for policies and standards that promote public company auditors' objectivity, effectiveness,

and responsiveness to dynamic market conditions. The CAQ serves as a convening body for the public company audit profession and provides thought leadership on proposed rules and standards, resources for the profession and other members of the financial reporting supply chain, and engages in stakeholder outreach on behalf of the profession. Deloitte also chairs the CAQ's Research Advisory Board whose stated purpose is to enhance the interaction of the profession with the academic community through both the funding of research and the facilitation of such research by providing both practice insight and subjects for a number of studies.

In addition, Deloitte participates in the PCAOB Data and Technology Task Force. This task force was established to assist the PCAOB in obtaining insights into the use of data analytics and certain emerging technologies. The information obtained through the task force will inform the PCAOB as to what additional guidance is needed, if any, to support the use of data analytics and technology in the audit.

We believe that significant investment in innovating the audit through technology and analytics is critical to the future of the

profession. As an inaugural member of the Rutgers AICPA Data Analytics Research (RADAR) Initiative, Deloitte works with its profession counterparts to improve audit effectiveness through the integration of data analytics into the audit process. Currently, Deloitte is participating in a RADAR initiative in which we are using live engagement data to test the theory and methodology of frameworks for incorporating the use of data analytics in testing large populations of data. The results of this initiative will inform the development of future audit data analytics guidance.

In addition to research and testing of new techniques and methodologies, the initiative encourages collaboration in other scholarly, practical research into audit analytics. Collaborating to promote transformative efforts such as these will be essential to the evolution and advancement of the profession.

Expanded assurance

Innovative technologies and the proliferation of data are driving the evolution of investors' needs. There is a broadening array of information that influences decision-making, yet currently devoid of independent assurance. Non-GAAP (accounting principles

generally accepted in the United States of America) information, for example, is widely used by companies to communicate performance results to investors. Similarly, key performance indicators, whether industry-specific or company-focused, financial or nonfinancial, are critical drivers of decisions by stakeholders. We believe the capital markets could further benefit from auditor assurance on certain information relevant to investor and other stakeholder decisions.

Looking out on the horizon, we are studying how breakthrough technologies, such as blockchain and machine learning algorithms, impact how companies process, compile, and disseminate financial information. We are considering how the assurance services we provide will need to evolve in response to these new technologies and exploring how these same technologies enable us to transform the delivery and communication of assurance.

Eventually, we see the potential for continuous assurance and evergreen audit reports being powered by new innovative technologies.

We believe that the professional objectivity of an independent auditor can improve the quality of information, extending beyond historical financial statements and encompassing aspects of enterprise value. We have developed assurance frameworks related to sustainability measures and cybersecurity programs, two areas of increased stakeholder focus. We believe that even with technological progress, the objectivity and impartiality of an external auditor will remain a critical element to maintaining public trust in the capital markets. Our professional capabilities and industry experience position us to deliver expanded assurance and bring a new level of quality and value to the markets.

The power of a multidisciplinary organization

In certain jurisdictions, questions have been raised as to whether firms should be narrowly focused on providing only core audit services. Some refer to this concept as an “audit-only firm.” At Deloitte, we see our robust multidisciplinary model—consisting of our audit and assurance, risk and financial advisory, tax, and consulting services—as an

indispensable asset that contributes to the quality of our audits. In order to audit the most difficult and complex areas of a company's business, it is essential for us to have a vibrant, multidisciplinary organization composed of leading functional and industry subject matter resources across a range of disciplines.

We recognize that risks are inherent in a multidisciplinary practice. This is why culture, leadership, tone at the top, and a robust system of quality control are so critical to the performance of high-quality audits. We maintain governance structures to ensure that the fulfillment of our public interest mandate—performing high-quality audits—remains the bedrock of our professional services organization. And we are intensely focused on safeguarding our independence, which forms the core of the public trust that the markets place in the external audit function. We have made significant investments in people, processes, and supporting technology in the design of a world-class system of quality control related to the independence professional standards.



Connecting education and the profession

The Deloitte Foundation (the “Foundation”), a not-for-profit organization celebrating its 90th year, supports education in the United States through a variety of initiatives that help develop future talent and their influencers and promote excellence in teaching, research, and curriculum innovation.

We offer resources that educators can incorporate into their curricula, experiential learning for students to gain real-world insight into the audit profession, and development and financial support to top accounting PhD candidates to strengthen the faculty pipeline. The Foundation also raises awareness of the profession and promotes ethical leadership, while sponsoring an array of national programs benefiting undergraduate and graduate students, educators, and middle/high school students.

Higher education programs engage students across the professional services spectrum. For example, the “Cyber Threat Competition” introduces students to both the technology and business aspects of cyber risk and the “Data Analytics Fellowship Program” provides core consulting skills training, such as hypothesis-based consulting, developing

executive presentations, and storyboarding, to apply data to help solve real-world issues. Our educator programs enhance learning by offering key insights and curriculum for the classroom. The University of Illinois-Deloitte Foundation Center for Business Analytics is developing a replicable model business analytics curriculum to be shared with hundreds of schools nationwide next year and our annual Tax Faculty Symposium provides insights and perspectives on the changing tax landscape.

High school programs focus on college readiness and STEM. To help underrepresented minorities and women students be better positioned for a range of STEM-related college and professional possibilities, the Foundation is teaming with nonprofits, secondary/higher education institutions, and industry to support the growth of inclusive pipelines of STEM-enabled future leaders. Programs help students navigate career pathways, while building STEM and STEM-adjacent competencies through curriculum designed to help students identify interest in, and pathways to, professional services careers in computing and analytics. The RightStep Virtual Mentoring Program, funded by the Deloitte Foundation RightStep Education Fund, engages Deloitte professionals as mentors to help students navigate the college application process.



The Deloitte Foundation—helping to prepare the next generation of leaders

-  More than **2,300 students** participated in Foundation-sponsored student case competitions
-  Nearly **300 faculty** participated in Foundation-sponsored programs
-  More than **1,000 PhDs** supported by Doctoral Fellowship Program—teaching millions of students over time
-  More than **\$82 million** gifted to education in the last decade
-  Established nearly **60 fellowships, professorships, and chairs**
-  The Foundation-funded RightStep Virtual Mentoring Program has grown to become the largest year-round engagement opportunity at Deloitte with nearly **1,300 Deloitte mentors** helping more than **3,200 students**
-  More than **2,400 educators** attended the Trueblood Seminars for Professors to learn about current complex accounting and auditing challenges, with many using the Foundation’s Trueblood Case Study Series in the classroom
-  More than **200 faculty** using the Forensic Accounting Case Study Series, which provides 10 case studies to help students understand ways to uncover fraud and corruption

Excellence, every day

Rooted in our commitment to continuously improve audit quality, we are hard at work shaping the audit of the future with a laser focus on engaging with stakeholders and regulators, investing in our professionals, and innovating how we deliver audits—never losing sight of our responsibility to our clients and the capital markets.



“We are at a pivotal time for the audit profession, with a rapidly evolving accounting and auditing landscape. As advanced technologies transform the profession, we are constantly innovating and reimagining the way audits are delivered. With quality at the very core of all that we do, we are building a bright future for our profession and are steadfast in our commitment to building trust in the capital markets.”

—**Joseph Ucuzoglu**
Chairman and Chief Executive Officer
Deloitte & Touche LLP



Annually, we publish a Transparency Report that outlines in detail our legal structure, governance, and the system of quality control we employ within our audit practice. That report can be accessed at <https://www.deloitte.com/us/transparency>. The detail provided in the Transparency Report is not repeated in this document.

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